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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2012 DOCKET NO. N2012-1

DIRECT TESTIMONY OF MARC A. SMITH

ON BEHALF OF THE

UNITED STATES POSTAL SERVICE

(USPS-T-9)

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USPS-LR-N2012-1/23 provides the documentation for the calculations done in part VII of this testimony. USPS-LR-N2012-1/24 contains the spreadsheets for Tables 1-11 and the three Attachments of this testimony.

Autobiographical Sketch

My name is Marc A. Smith. I have been employed by the Postal Service since February, 1987 as an Economist in the Cost Attribution group of Finance. My work is to contribute to the development of the attributable costs for the classes and subclasses of mail, provided annually in the Cost and Revenue Analysis (CRA). My product costing work has focused on plant and equipment costs, and other "indirect" (or piggyback) costs, helping to reflect USPS automation efforts in the CRA and in cost avoidance work. I have been a rate case witness for the Postal Service on these topics in numerous cases before the Postal Rate Commission, now the Postal Regulatory Commission (PRC). I have also supported work by other witnesses in numerous cases before the PRC. I discuss my participation in these PRC Dockets in more detail below.

Prior to coming to the Postal Service, I was a Senior Economist with the New York Department of Public Service. I testified as an expert witness in numerous electric and telephone rate proceedings, primarily on the marginal costs of electricity. This testimony was in support of both retail and co-generation electric rate proposals. In 1981, I served as an economist at the Interstate Commerce Commission. There, I worked on modifying railroad regulations to conform with the Staggers Rail Act of 1980.

I received a B.A. with honors in Economics from the George Washington University in 1975. I received a M.A. in Economics from the University of Michigan in 1978. While at the University of Michigan, I completed all

requirements toward a Ph. D in Economics except the dissertation. As a graduate student, I served as a teaching fellow in introductory economics and econometrics courses. I also worked as a research assistant at the Institute for Social Research in Ann Arbor, Michigan on a study of electric utility load management and peak load pricing experiments.

Improving the treatment of equipment and plant costs used in processing is an area to which I have contributed throughout my USPS work. In Docket No. R90-1, I developed the initial process to identify depreciation, maintenance, and facility-space related costs by equipment type, and incorporated this into the CRA to distribute these costs to mail classes utilizing the equipment. I have refined this work as the automation program has progressed in Dockets No. R97-1, R2000-1, R2001-1, R2005-1 and R2006-1.

In Docket No. R87-1, in support of Dr. Paul Kleindorfer's testimony and in Docket No. R90-1 in my testimony I've taken up the issue of how differences in service or service standards can affect the attributable costs for the classes of mail. These testimonies discussed the issue of peak load pricing theory and its implications for postal product costs. This topic, which has also been the subject of my publications listed below, is pertinent as well to determining cost savings associated with proposed changes in service standards in this docket as discussed below.

In Docket No. MC95-1, which led to major changes in mail preparation requirements for presort discounts for letters, I provided estimates of First-Class -

Mail letter mail processing costs for the existing and proposed presort rate categories by enhancing the letter mail flow and costs models to reflect mail preparation characteristics (bundling, tray/container makeup). This work helped demonstrate the merits of using tray-based letter presorting.

In Docket No. N2010-1, Six to Five-Day Carrier Delivery and Related Service Changes, I assisted Drs. Bradley and Colvin in their testimonies to determine the annual on-going savings from this proposed change. As I discuss below, this testimony draws on that work.

My most pertinent papers and publications are as follows:

"Peak-Load Pricing in Postal Services" with Michael A. Crew and Paul R. Kleindorfer, Economic Journal, September, 1990.

"Measuring Product Costs for Ratemaking: The United States Postal Service," with Michael D. Bradley and Jeffrey L. Colvin, edited by Michael A. Crew and Paul R. Kleindorfer Regulation and the Nature of Postal and Delivery Service. Boston: Kluwer Academic Publishers, 1993, pp. 133-157.

"Peak Loads and Postal Services: Some Implications of Multi-Stage Production" with Michael A. Crew and Paul R. Kleindorfer, edited by Michael A. Crew and Paul R. Kleindorfer Managing Change in Postal and Delivery Industries. Boston: Kluwer Academic Publishers, 1997, pp. 42-64.

I. Purpose of Testimony

The purpose of this testimony is to assist in calculating the annual cost savings, expressed in FY 2010 terms, that will accrue to the Postal Service as a result of the Mail Processing Network Rationalization Service Changes initiative. I have relied heavily upon the testimonies of witnesses Bratta, Neri, and Rosenberg. In the testimony, I address:

1. The relevance of the PRC's past consideration of peak load pricing theory in determining the differences in attributable costs by class of mail associated with different service levels or standards to the task at hand of determining the savings associated with the present proposal. The savings stemming from the proposed revisions to First-Class Mail and Periodicals service standards, which allow an additional day for delivery for a significant portion of this mail, can be understood in the context of the peak load problem.
2. The framework for calculation of the savings, including the use of FY 2010 costs from Docket No. ACR2010 as the basis for determining the annual savings.
3. Inputs from Docket No. ACR2010 used in the calculation of savings by witness Bradley, USPS-T-10, and myself. These include productive hourly rates (or cost per work hour), labor productivities, service wide benefits costs and piggyback factors.
4. Mail processing equipment-related savings in maintenance labor, parts and supplies due to the reduced amount of equipment needed under

the proposed service standards. These annual savings are $454.7 million.

5. Facility-related savings associated with a reduced number of plants, including building maintenance and custodial labor, utilities, supplies and contractor costs, and rents and annual earnings associated with the proceeds from the sale of facilities. These annual savings are $373.0 million.

6. Mail processing labor and carrier savings associated with workload reductions enabled by the processing network under consideration, including reduction in outgoing secondary sorting, replacement of Carrier Sequence Barcode Sorter (CSBCS) and Upgraded Flat Sorting Machine (UFSM) 1000 sortation with more efficient sortation and additional letter automated sorting (incoming secondary and delivery point sequencing (DPS)). These annual savings are $74.2 million.

7. In total, the annual savings put forth in my testimony are $901.9 million.

II. Relevance of PRC's Prior Consideration of Peak Load Problem

In Dockets Nos. R84-1, R87-1 and R90-1, the PRC addressed the question of how the service accorded First-Class Mail and Periodicals Mail, as compared to that given to Standard Mail and Package Services, affects the relative mail processing costs for those products. This led to the consideration of the peak load problem, often considered in electric and telephone service, serving as the basis for determining cost and pricing differences for different hours of the day or days of the week. While the issue in this docket is not cost differences between classes, the peak load problem can help us understand how changes in service standards affect costs.[1]

The peak load problem arises from the combination of significant work load/output fluctuations and production capacity inflexibilities such that by virtue of having production capacity sufficient to meet workload/output peaks, significant periods of underutilization of production capacity arise.[2] In electric and telephone service, this has often been ameliorated or addressed by charging customers different rates for usage in peak and off-peak times. In Docket No. R87-1, the PRC concluded that First-Class Mail service standards and volumes led to significant daily processing workload peaks of relatively short duration

[1] This same point is reflected in the PRC-sponsored "Report on Peak Load Cost Modeling" by Robert Cohen, Charles McBride, John Panzar, and John Waller, working with the School of Public Policy, George Mason University, October 7, 2011.

[2] The general peak load problem and its application to postal services was discussed in the Direct Testimony of Dr Paul R. Kleindorfer, on behalf of the U.S. Postal Service, in PRC Docket No. R87-1, pages 6-13.

(perhaps two to four hours) and that there were likely important capacity inflexibilities, including in labor, since most staff worked eight hour shifts. It was determined, however, that much workload leveling was accomplished through the processing of the more deferrable Standard Mail (then Third-Class Mail) before and after the workload peaks, thereby raising utilization and limiting the processing cost differences for First-Class Mail and Third-Class Mail.[3]

Since that time (1987) the peak load problem has gotten worse, particularly in letter processing, due to both greater production capacity inflexibilities and more uneven workloads. Due to the automation of letter processing, production capacity has become more inflexible as equipment and facilities costs have become a larger share of total processing costs.[4] While labor inflexibilities remain since much staff work 8 hour shifts, at least it can be adjusted somewhat over the course of a day, or week. Plant and equipment capacity, however, cannot be adjusted for daily, weekly, nor for the most part, even seasonal workload fluctuations.

The work load fluctuations, especially related to letter sorting, have grown in magnitude for the following reasons. First, due to automation efforts, processing work related to letter (and flat) processing has grown as sortation now includes delivery point sequencing (DPS). In addition, as pointed out by witnesses Williams, USPS-T-1, part IV, Rosenberg, USPS-T-3, part II and Neri,

[3] Docket No. R87-1, PRC Opinion and Decision, pages 126-204. The PRC indicates that more deferrable Third-class Mail ameliorated much of the peak load problem, indicating that the cost difference could be limited to night-shift and other premiums being allocated more to First-Class Mail, as opposed to the arguments of Third-Class Mailers claiming that processing of their mail had a zero cost due to all the staffing being driven by First-Class Mail.

[4] The share of plant and equipment related costs by operation is shown in Docket No. ACR2010, USPS-FY10-25.

USPS-T-4, part III.B.2, the second pass of DPS cannot begin until the first pass is fully completed and thus contains all of the letters to be sequenced.[5] At that point, the second pass must be run for all classes at the same time. Thus, even though Standard Mail letters are available to be processed prior to the DPS window, they cannot be run on a second pass ahead of the availability of First-Class Mail to level the workload, as the PRC's R87-1 discussion of operations indicated was done in 1987. Since meeting overnight First-Class Mail service standards entails that all the First-Class Mail letters for next day delivery aren't available for the DPS first-pass until perhaps 1:00-2:00 a.m. or later, the result is a large workload peak in the 2:00 a.m. to 6:00 a.m. time period. Another important reason that workload has become more uneven is that bulk-entered mail constitutes a higher proportion of the mail mix. In addition, bulk-entered mail has become more heavily workshared (presorted, prebarcoded, dropshipped, etc.) over time. As a result, there is far less need for origin processing and handling and also far less need for non-DPS destination sorting as well. So DPS has made the letter processing workload peaks higher, while the decline in single-piece mail has reduced the workloads in the rest of the day's operations. As a result, the peak load problem has grown, leading to low levels of utilization in plant, equipment and, to some degree, labor, as well. The latter stems from the workload peak lasting less than the eight-hour shift for most staff. Witness

[5] The two-pass DPS is based on a two-pass "radix," least significant digit sequencing method. This requires that the results of the first pass contain all the mail to be sequenced, sorted by carrier stop. The second pass is done by running the results of the first pass starting with the first stop, then second, in order of stops to separate the mail by carrier route in the order of the route.

Neri, USPS-T-4, part II, also points out the decline in utilization of capacity resulting from workshare growth.

The worsening peak load problem highlights an important source of savings associated with changing First-Class Mail service standards. The proposed service standard changes narrow significantly the scope of overnight delivery of local First-Class Mail, a long-time feature of the Postal Service's premier product. This is a change that will no doubt be a concern to many of our customers. But allowing another day for delivery for a significant portion of First-Class Mail enables longer operation windows, especially for DPS, as discussed by witnesses Rosenberg, USPS-T-3, and Neri, USPS-T-4. This enables a great deal of workload leveling, meaning that the same mail volumes can be processed using less capacity –plant, equipment and labor. Thus, changing the service standards, as proposed greatly ameliorates the peak load problem, or problem of low capacity utilization, that has worsened acutely in the past couple of decades. Thus, the peak load framework allows for understanding this significant savings opportunity.

III. Framework for Determining Savings

The estimates in this testimony are of "full-up" cost savings stemming from the mail processing network rationalization described by witnesses Williams, USPS-T-1, Rosenberg, USPS-T-3, Neri, USPS-T-4 and Bratta, USPS-T-5, using FY 2010 costs as a base. The term "full-up savings" refers to the annual savings available after the completion of all adjustments needed to reduce staffing and

adapt contracts, plants, and equipment to the changed operational environment. Put differently, the estimates in this testimony are expressed as the annual savings that would occur if the processing network described by witnesses Williams, Rosenberg, Neri and Bratta had been fully implemented for handling FY 2010 volumes at FY 2010 wages and other input costs.

To implement this methodology for the activities listed above, I use the FY 2010 Annual Compliance Report (ACR) as a framework.[6] The savings discussed in this testimony are based upon the analyses of witnesses Rosenberg, USPS-T-3, Neri, USPS-T-4 and Bratta, USPS-T-5. I apply financial factors to the savings estimates in order to express them in dollar terms. I perform this task in different ways for different activities, as explained below.

To determine maintenance and custodial labor savings, I apply FY 2010 annual average salary and benefits costs based on Docket No. ACR2010 to the staffing savings estimates provided by witness Bratta, USPS-T-5. In the case of some equipment and facility-related savings, I determine the savings as a percentage of FY2010 CRA costs for certain components, based on witnesses Bratta and Rosenberg's testimonies. To determine supervision and miscellaneous supplies savings, which witness Bratta describes in his testimony, I employ the piggyback factor approach used in the CRA and cost avoidance work. In addition, I apply ACR2010 processing productivities and other factors to the workload reduction estimates to determine the savings in processing and delivery.

[6] The approach taken in this testimony is similar to that of Dr. Colvin's, USPS-T-7 in Docket No. N2010-1.

Attachments 1 and 2 supply important inputs used for quantifying savings based on Docket No. ACR2010. The Docket No. ACR2010 productive hourly rates are shown in my Attachment 1 and more detailed maintenance and custodial hourly rates (and salaries and benefits) are contained in my Attachment 2. In Attachment 3, I have augmented the ACR2010 materials with FY2010 costs from mail processing facilities that are the focus of the analysis, using accounting costs by finance number.

IV. Docket ACR 2010 Piggyback Factors Used for Savings Calculation

As was true in Docket No. N2010-1, concerning six to five-day delivery, the traditional piggyback approach is not the a correct approach for estimating the cost savings for most aspects of the operational changes associated with the service standard changes.

A piggyback factor reflects the overall ratio of indirect costs to direct labor costs as determined in the development of attributable costs by product.[7] The FY 2010 piggyback factor for mail processing of 1.689 indicates that for each dollar of processing labor costs incurred by the Postal Service, 68.9 cents of costs related to processing are incurred in the areas of supervision, administrative work, facility-related costs, equipment-related costs, and service-wide benefits. [8] This ratio represents the relative direct and indirect costs for processing that the Postal Service has experienced, reflecting that as clerk and

[7] See Docket No. R2006-1, Testimony of Marc A. Smith, USPS-T-13, pp. 21-24.
[8] See Docket No. ACR2010, USPS-FY10-24. This is the piggyback factor for total attributable costs.

mail handlers are added for processing work due to volume growth, there is a need to add supervision, facility space, and equipment as well as administrative and service-wide benefits. The same is true in response to volume declines over the long term, hence the usefulness of this methodology in CRA attibutable cost estimation.

As discussed in section VII below, piggyback factors are applied to reflect the delivery savings associated with the growth in DPS volumes under the proposed network. But apart from this, and despite the validity of the use of piggyback factors for this and other ACR purposes, it isn't appropriate to apply them to reflect mail processing savings in this docket. In this case, witnesses Neri, Bratta and Rosenberg specify changes in plant and equipment and staffing in the proposed mail processing network. This network stems from their collective analysis of what is consistent with the proposed service standards. Thus the long-term relationships of labor and indirect costs are explicitly changing, thereby making the general use of piggyback factors inappropriate. I do, however, make more limited use of piggyback factors in three ways, as described below.

First, as done in Docket No. N2010-1, concerning six to five-day delivery, I have relied upon traditional CRA or piggyback factor methods in the case of service-wide benefits. While certain types of indirect costs, as indicated above, will not decline with the reductions in direct labor costs stemming from the operations changes contemplated as part of the proposed service standard changes, the relationship between service-wide benefits and direct labor costs is

much more certain–since service-wide costs are in essence a part of direct labor costs. Hence, the traditional piggyback methodology is reflective of the savings to be obtained as labor costs are reduced given the operations changes being considered in conjunction with the proposed service standards. Service-wide benefits consist of retiree health benefits, workers' compensation, earned Civil Service Retirement System (CSRS) benefits, unemployment compensation, repriced annual leave, holiday leave adjustment, and annuitant life insurance. These are shown in Table 1, below, and each is described in Appendix A to my testimony.

These corporate-wide or service-wide benefits reflect additional compensation (or costs related to employment) received by postal employees during FY 2010 over and above the salaries and benefits included in the cost segments and components of 1-13, 16, 18.1, and 19. As described in Appendix A, they are contained in cost segment 18.3 because the Postal Service accounting system does not split these costs by employee category as is done for the salaries and benefits contained in cost segments 1-13, 16, 18.1, and 19. While not included in these labor cost segments, the service-wide benefits shown in Table 1 are treated exactly the same as the total costs of all of these labor cost segments–same attribution, same distribution–in the development of attributable costs, because these service-wide benefits are indeed part of labor costs. Thus service-wide costs savings would be realized in the same way as labor cost savings given the operations changes facilitated by the proposed service standards.

As shown in the table below, service-wide benefits in FY 2010 were $5.4 billion, or $111.54 for every $1,000 of salaries and benefits in cost segments 1-13, 16, 18.1, and 19. As such, for every $1,000 of labor savings enabled by the operations changes facilitated by the proposed service standards, there is an additional $111.54 of savings in service-wide benefits, consistent with the way the costs are developed in the cost segments and components. These are savings that would be realized along with savings in salaries and benefits.[9]

Table 1: FY 2010 Service-Wide Benefits (000s)	
Repriced Annual Leave	**90,502**
Holiday Leave Adjustment	**-13,588**
Workers Compensation Current Year	**1,167,995**
Unemployment Compensation	**73,933**
Annuitant Health Benefits–Earned (Current)	**3,055,000**
Civil Service Retirement System (CSRS)–Earned	**1,040,064**
Annuitant Life Insurance	**15,863**
Total Service-Wide Benefits	**$5,429,769**
Total Salary and Benefits	**$48,680,906**
Service-Wide Benefits per $1,000 of Salary & Benefits	**$111.54**

The second use of piggyback factors is an adaptation of standard factors in order to determine miscellaneous expense savings. In this case, however, rather than rely on the traditional mail processing piggyback factors, we make

[9] See Docket No. ACR2010, USPS-FY10-31, FY10.ARpt.xls and FY10.KRpt.xls.

use of the specific piggyback relationships for mail processing plants. In the case of miscellaneous expenses,[10] witness Bratta has said that these types of expenses will be saved at closing plants.[11] Nevertheless, the treatment of these costs in the CRA has been that they are as variable as labor and receive the same distribution. Since some staff at inactive facilities will be needed at the active plants, it makes most sense to determine the share of these savings based on the share of overall labor savings. To do this, we use the costs by segment and component for plants or network processing facilities as shown in Attachment 3. As shown in Table 2 below, we take the ratio of miscellaneous costs to total labor associated with the plant finance numbers to get the following factor: for every $1,000s of labor savings, there is $7.81 of miscellaneous costs savings.

Table 2: Miscellaneous Postal Supplies & Services Factor

	Expenses For Major Processing Facilities
Miscellaneous Postal Supplies and Services	91,923,418
Total Current Network Labor costs (comp 527)	11,764,388,784
Miscellaneous Costs per $1,000 of Network Labor Costs	$ 7.81

The third use of piggyback factors is the traditional one used to reflect delivery cost savings stemming from the increase in DPS letters permitted by the new network as discussed below in part VII.

[10] This includes supplies and services purchased with credit cards, contractual services other than repairs and maintenance; and for other miscellaneous supplies and services.
[11] Witness Bratta, USPS-T-4, part IVB.

V. Mail Processing Equipment Related Savings

One of the important benefits of the revision to First-Class service standards is that it permits a significant reduction in the amount of equipment needed. Much less equipment is needed to run the same volume of mail due to a more level workload. In FY2010, mail processing equipment related costs included depreciation (and related interest expense) of $793 million, maintenance labor of $1,371 million and parts and supplies costs of $194 million.[12] For Delivery Barcode Sorters (DBCS), which account for about one-third of these equipment related costs, these costs were $119 million for depreciation (and related interest expense), $631 million for maintenance labor and $58 million for parts and supplies. Witness Rosenberg indicates the new network would require 3,165 DBCS as compared to the FY2010 mid-year total of 5,916, nearly cutting the required amount in half.[13] This provides an indication of the magnitude of savings to be obtained. Witnesses Rosenberg, USPS-T-3, and Neri, USPS-T-4, discuss the reduction in equipment requirements given the network under consideration.[14]

I obtained specific estimates of resource savings and dollar savings in maintenance labor and in parts and supplies from witnesses Bratta and Rosenberg. Witness Bratta has determined that the total authorized positions for non-supervisory maintenance of mail processing equipment (LDC36) for

[12] Docket No. ACR2010, USPS-FY10-8. Parts and Supplies costs shown here don't include Mail Transport Equipment costs.
[13] Docket No. ACR 2010, USPS-FY10-8 and witness Rosenberg, USPS-T-3, Part IV. DBCS totals used here include Delivery Barcode Sorter w/Input Output Sub-System (DIOSS) and Combined Input Output Sub-System (CIOSS).
[14] Witnesses Rosenberg, USPS-T-3, Part IV and Neri, USPS-T-4, Part VI

processing facilities will fall from 15,260 to 11,884, or by 3,376 positions. In addition, witness Bratta has determined that administrative non-supervisory positions (LDC 39) will decline from 1,640 to 1,239 or by 401 positions.[15] As shown below in Table 3, the annual savings, based on the annual average FY2010 salary and benefits (including service wide benefits) for both types of staffing, is $307.4 and $32.5 million. While witness Bratta does not provide an estimate of changes in the number of supervisor positions, he indicates that he would expect a decline, consistent with the current supervision to staff ratios. Attachment 2 shows the current ratio of supervisors to staff of 0.08037. Using this ratio, this would mean a reduction of 304 supervisor positions at a savings of $32.8 million, for a total of $372.7 million, as shown below in Table 3.

Table 3: Mail Processing Equipment Maintenance Labor Savings

Labor Type	Change in Authorized Positions	Average Annual Rate*	Labor Cost Savings	Service-Wide Benefits	Total Savings
			---- in millions ----		
Postal Operating Equipment	3,376	$ 81,914	$ 276.5	$ 30.8	$ 307.4
Administrative	401	$ 72,933	$ 29.2	$ 3.3	$ 32.5
Supervision	304	$ 97,300	$ 29.5	$ 3.3	$ 32.8
Total			$ 335.3	$ 37.4	$ 372.7

'*Average Annual Rate from Attachment 2.

Savings on spare parts and supplies have three components. Witness Bratta has determined that annual spare parts costs will decline by $67.9 million. See witness Bratta, USPS-T-5, Part IVA and USPS-LR-N2012-1/33. In addition,

[15] Witness Bratta, USPS-T-5, Part IVA and also see USPS-LR-N2012-1/31 and USPS-LR-N2012-1/32.

witness Rosenberg, USPS-T-3, Part IV, has determined that based on her estimates of reduced requirements for Advanced Facer Canceler Systems (AFCS), there will be a reduced need for Biohazard Detection System (BDS) cartridges, going from 520 currently to 335, a 36 percent reduction. The FY2010 BDS cartridge expense was $32.0 million. A 36 percent reduction would have allowed FY 2010 BDS cartridge savings of $11.4 million. Finally, the third component is the decline in miscellaneous postal supplies and services associated with the reduction of $335.3 million (labor savings excluding service wide benefits) in maintenance personnel costs shown above in Table 3. Miscellaneous postal supplies and costs decline with this personnel cost reduction at $7.81 per $1,000 of salary and benefits or $2.6 million. The sum of this is $81.9 million, as shown in Table 4 below.

Table 4: Mail Processing Equipment Parts and Supplies Savings

	Total Savings	
	in millions	
Spare Parts	$	67.9
BDS Cartridge Reduction	$	11.4
Miscellaneous Postal Supplies and Services	$	2.6
Total	$	81.9

I do not provide an estimate of the reduction in FY2010 depreciation expense for mail processing equipment, but it is of use to discuss the potential savings in this area. The closing sites had significant amounts of equipment depreciation, much of which is no doubt for processing. However, as witnesses Rosenberg, USPS-T-3, and Neri, USPS-T-4, indicate, the Postal Service will

reposition equipment, disposing of older, less useful equipment from any and all sites. See witness Neri, USPS-T-4, part VI. For instance, the Postal Service is likely keeping the newer DBCSs, and Automated Flat Sorting Machines (AFSM) 100s with Automated Induction (AI) and Automated Tray Handling System (ATHS). If there was a detailed list of which equipment was to be retained, the FY2010 accounting records for depreciation could be used to determine the FY2010 reduction in depreciation that would have occurred given the full-up operations and savings.

Another item to point out is that, to the extent that the current service standards are maintained, the Postal Service is going to need to acquire more equipment, such as DBCSs, than it would otherwise need under the proposed service standards. This additional equipment purchases would lead to additional depreciation, costs that could be saved though the proposed change in service standards.

Despite not including any depreciation savings for mail processing equipment, the total annual savings (based on FY2010 costs) from mail processing equipment changes is $454.7 million.

VI. Facility Related Savings

Witness Rosenberg, USPS-T-3, as a part of her study of potential facility consolidation, has identified a list of Active and Inactive facilities associated with the network being considered (see USPS-LR-N2012-1/34). Witness Bratta has taken this list of facilities and determined the savings in personnel and non-

personnel that this consolidation would provide. In this testimony, based on witness Bratta's work, I put forth an estimate of the annual savings (in FY2010 costs or dollars) due to no longer needing the Inactive sites for processing. These savings includes: building and custodial labor savings; utilities and heating fuel; custodial supplies and services; rents and annual earnings associated with the utilization of the facility sale proceeds.

Witness Bratta, USPS-T-5, has determined that no longer needing processing at the Inactive facilities would enable reductions of building maintenance and custodial staff of 616 and 2,056 respectively. See witness Bratta, USPS-T-5, part IV, and USPS-LR-N2012-1/31 and USPS-LR-N2012-1/32. In doing so, witness Bratta has considered that often the Inactive facilties contain activities such as retail, delivery, Bulk Mail Entry Unit (BMEU), district offices, and Vehicle Maintenance Facility (VMF). Building Maintenance and custodial staff for these activities would not be saved since these activities would need to be relocated and/or maintained at these sites with the remaining space utilized by bringing in either tenants or other postal operations (thereby freeing up other space). Witness Bratta has estimated that these activities account for 5 percent of the facility space at Inactive sites. See witness Bratta, USPS-T-5, part IV.

As shown below in Table 5, these reductions in building maintenance and custodial staff of 616 and 2,056 respectively, given the average annual salary and benefits costs for this staff including service wide benefits, result in $206.4 million in annual savings. To that we add a reduction of 215 supervisor positions

(using the supervisor to staff ratio from Attachment 2) at a savings of $23.2 million for a total of $229.7 million, as shown below in Table 5.

Table 5: Facility Maintenance and Custodial Labor Savings

Labor Type	Change in Authorized Positions	Average Annual Rate*	Labor Cost Savings	Service-Wide Benefits	Total Savings
			---- in millions ----		
Building Maintenance	616	$ 75,980	$ 46.8	$ 5.2	$ 52.0
Custodial Maintenance	2,056	$ 67,570	$ 138.9	$ 15.5	$ 154.4
Supervision	215	$ 97,300	$ 20.9	$ 2.3	$ 23.2
Total			$ 206.7	$ 23.1	$ 229.7

***Average Annual Rate from Attachment 2.**

Witness Bratta has determined that, apart from the need to provide for the 5 percent of space utilized for non-processing purposes, all non-personnel facility related expenses can be saved. See witness Bratta, USPS-T-5, part IV.B. In accordance with this, I have taken the FY2010 utilities/heating and custodial supplies expenses for the Inactive sites of $78.3 million and $18.7 million respectively, reduced these by 5 percent to come up with savings of $74.4 million and $17.8 million respectively. This reduction is consistent with the treatment in the CRA or methods used to develop attributable costs since these costs are apportioned based on square feet as well for the CRA. The decline in miscellaneous postal supplies and services associated with the reduction of $206.7 million (labor savings excluding service wide benefits) in maintenance personnel costs at $7.81 per $1,000 of salary and benefits is $1.6 million. The sum of these non-personnel facility-related cost savings is $93.8 million, as shown in Table 6 below.

Table 6: Facility-Related Utilities and Supplies Savings			
	Expenses for Inactive Sites*	**Percentage of Inactive Site Space for Processing**	**Total Savings**
	in millions		in millions
Utilities and Heating Fuel	$ 78.3	95.0%	$ 74.4
Custodial Supplies and Services	$ 18.7	95.0%	$ 17.8
Miscellaneous Postal Supplies and Services			$ 1.6
Total			$ 93.8
*Expenses for Inactive Sites Based on PSFR data.			

The final aspect of annual facility-related savings stemming from reduced need for facility space is rents saved on leased space or potential earnings relating to vacated owned facilities (from the sale or leasing of such space). About 90 percent of the space associated with the Inactive sites is owned, while 10 percent is rented. To estimate these savings, we sought assistance from our Facilities department.

Facilities has been tasked to estimate these types of savings for the buildings and properties associated with Inactive sites. Though this work is not yet complete, they were able to offer the following based on work done to date. An important point related to their work is that there are non-processing activities at these buildings (VMF, retail, delivery, district offices), some of which can be expensive to relocate. Thus, it is a possibility we could keep even large facilities to support the remaining activities, seeking to utilize vacant space by moving in other nearby postal operations, such as delivery annexes, or by subleasing.

Facilities indicated that they have been directed, as a general rule, to sell vacant owned assets when possible and to terminate leases as space is vacated. Based on the most current studies completed by Facilities, it appears that, of the 252 buildings in the study, which consists of 209 owned buildings and 43 leased buildings totaling 28.7M square feet, the Postal Service would be able to fully vacate only 93 buildings totaling 13.5M square feet. This would result in a financial breakdown as follows:

$448 million one time revenue

$121 million one time capital cost

$16.8 million annual lease savings

In a number of cases where the Postal Service would be retaining space, Facilities will move other surrounding operations into the space and capture savings and revenue for theses buildings. Those potential moves are figured into the above revenue, cost and savings.

Based on this, the annual savings obtainable after a transition is complete would consist of $16.8 million annual lease savings plus the annual benefit associated with the net revenue of $327 million (=$448 million - $121 million). Determining the annual benefit or "savings" associated with the $327 million net revenue is difficult. This is especially true for a federal agency that is greatly constrained by law in terms of its investment options.[16] However, it is my view that the Postal Service could put these funds to use making capital investments for postal plant, equipment or vehicles, earning at least a 10 percent annual

16 Federal Trade Commission, *Accounting for Laws that Apply Differently to the United States Postal Service and Its Private Competitors*, December, 2007, page 45.

return.[17] On this basis, the annual "savings" stemming from the $327 million in net revenue is 10 percent of this, or $32.7 million.

The rental earnings and rental savings would total $49.5 million, as shown in Table 7 below. Considering all facility-related savings together – for building maintenance and custodial labor; utilities and heating fuel; custodial supplies and services; rental savings and benefits from facility sale proceeds – the total annual savings is $373.0 million.

Table 7: Facility Lease and Sale Related Savings

	Total Annual Savings
	in millions
Potential Annual Earnings from Facility Sales Proceeds	$ 32.7
Potential Rent Savings	$ 16.8
Total	$ 49.5

VII. Workload Reduction Savings

The consolidated network under consideration, as described by witnesses Rosenberg, USPS-T-3, and Neri, USPS-T-4, results in reduced workload in many ways, three of which can be explicitly quantified:

1. Elimination or reduction of outgoing secondary sorting

[17] The basis for this view is summarized in 2011 Report on Form 10-K United States Postal Service, page 9, where the following risk is acknowledged: "Due to our current cash constraints, our operational performance in the future could be at risk as a result of inadequate capital investment in transportation equipment, mail processing equipment, facilities, or information technology which are either essential to operations or to improve the quality of our services."

2. Complete elimination of CSBCS and UFSM 1000 sortation, and

3. Additional letter automated incoming secondary and DPS sorting

I have used the Docket No. ACR2010 letter and flats cost models, productivities, and wage rates to get processing labor savings, and I have relied on the Docket No. ACR 2010 as well for delivery cost savings.[18] This is detailed in USPS-LR-N2012-1/23.

Reduction in Outgoing Secondary Sorting

In today's processing environment, we distribute automated letter-sized mail to 166 Automated Area Distribution Center (AADC) mail processing facilities and manual letters, flats, and parcels are sorted to 130 Area Distribution Center (ADC) facilities. In addition, with the current overnight service standard, outgoing sorting has a focus on getting turnaround mail sorted to the 5-digit zip codes as much as possible, leaving much additional sortation for an outgoing secondary. Under the proposed plan, there would be fewer separations to make for letters, and there wouldn't be a need to focus on local or turnaround mail for both letters and flats. As a result, for letter sorting, there won't be a need to do outgoing secondary sorting. In the case of flats, the reduced need to get local turnaround mail to the 5-digit level allows a greater depth of sortation for mail for other plants, allowing a reduction in outgoing secondary. Under the proposed network, flats outgoing secondary sorting would be 42 percent of the current volumes. These specific estimates of the amount of reduction in outgoing secondary sorting have been provided to me by Operations and are discussed further in

[18] See Docket No. ACR 2010, USPS-FY10-10, USPS-FY10-11, USPS-FY10-19 and USPS-FY10-23.

USPS-LR-N2012-1/23. Table 8 below summarizes the savings calculations shown in more detail in this library reference. Table 8 shows the annual volume reductions expected under the proposed network, along with the labor savings per piece (including service wide benefits) and the savings in miscellaneous postal supplies and services.

Table 8: Savings Due to Reduction in Outgoing Secondary Sorting

Equipment Type	Annual Volume Reduction in Outgoing Secondary (TPH)	Labor Savings per TPH	Labor Cost Savings	Service-Wide Benefits	Miscellaneous Postal Supplies and Services	Total Savings
		in cents	--- in millions ---			
DBCS	3,981,560,824	0.4111	$ 16.4	$ 1.8	$ 0.1	$ 18.3
AFSM 100, UFSM 1000	204,200,697	1.9539	$ 4.0	$ 0.4	$ 0.0	$ 4.5
Total			$ 20.4	$ 2.3	$ 0.2	$ 22.8

Elimination of CSBCS and UFSM 1000 Sortation

Additionally, being able to process the same volumes on less equipment and in a smaller number of locations would allow the Postal Service an opportunity to select the most efficient equipment. For example, in FY 2010, CSBCS workload reflected 17.297 billion sorts. Under the proposed plan, the CSBCS workload would migrate to the DBCS, resulting in less processing handlings. Similarly, in FY 2010, there was a UFSM 1000 volume of 1.254 billion. This would move to the more efficient AFSM 100. In FY 2011, on-going migration activities have resulted in a decrease of CSBCS and UFSM 1000 workload, and so the volumes to be eliminated under the proposed network have

been reduced to account for this. Table 9 shows the summary of calculations, which are further detailed in USPS-LR-N2012-1/23.

Table 9: Savings Due to Eliminating CSBCS and UFSM 1000 Sortation

Equipment Type	Annual Volume Eliminated	Labor Savings per piece	Labor Cost Savings	Service-Wide Benefits	Miscellaneous Postal Supplies and Services	Total Savings
		in cents	--- in millions ---			
CSBCS	1,507,665,860	0.44	$ 6.7	$ 0.7	$ 0.1	$ 7.5
UFSM 1000	642,383,165	1.11	$ 7.1	$ 0.8	$ 0.1	$ 8.0
Total			$ 13.8	$ 1.5	$ 0.1	$ 15.4

Additional Automated Letter Sorting

The consolidation of the network into a smaller number of sites allows additional automation of letters sorting. There is an opportunity to move mail currently processed in manual operations into automated or mechanized operations, which require less workhours to process the same volume.

Also, there are opportunities for productivity improvements by doing additional DPS for the remaining automation-compatible and non-DPS letter volumes. Within our active list of 5-digit ZIP Codes for letters, there are 2,082 zones not being sorted to the finest depth of sort and placed in DPS. Under the Network Rationalization concept, the operating window would be extended and additional zones could be sorted in DPS, resulting in the elimination of manual distribution by the carrier. Within these zones, Post Office Boxes would be sequenced, resulting in a reduction in distribution handling by the clerk. Similarly, the P. O. Box mail would be sequenced for zones without carriers that are currently non-automated, resulting in reduced distribution handling by the

clerk. The calculation of these savings is summarized in Table 10 and detailed in USPS-LR-N2012-1/23.

Table 10: Savings Due to Additional Automated Sorting of Letters

		Processing Labor Costs						
Current Incoming Secondary Sortation	**Annual Volume Added to DPS**	**Labor Cost Change per piece**	**Labor Cost Change**	**Service-Wide Benefits**	**Miscell. Postal Supplies and Services**	**Total Proc. Savings and/or Costs**	**Total Delivery Savings**	**Total Savings**
	millions	in cents	--- in millions ---					
Manual	90.4	3.01	$ 2.7	$ 0.3	$ 0.0	$ 3.0	$ 4.1	$ 7.1
Automated	687.2	(0.27)	$ (1.8)	$ (0.2)	$ (0.0)	$ (2.1)	$ 31.0	$ 28.9
Total			$ 0.9	$ 0.1	$ 0.0	$ 1.0	$ 35.0	$ 36.0

In total, these three workload reductions add $74.2 million in annual savings.

VIII. Summary of Savings Provided in This Testimony

Again, as discussed above, these savings are "full-up" savings—annual ongoing savings once a full transition is made. Also, these are the savings in terms of FY 2010, as if the plan of consolidating mail processing, currently under study, had been in place and "full up" during FY 2010. Witness Rosenberg, USPS-T-3, has made estimates of the considerable reductions in facility space and equipment requirements for this consolidated network. Witness Bratta, USPS-T-5, has used this information to determine the reductions in maintenance and custodial staffing savings and non-personnel resources due to this consolidated network. My testimony has worked to quantify the savings associated with the staffing reductions, savings in non-personnel and workload

that witness Bratta has identified. I have done this using Docket No. ACR2010 costs and data, supplemented as well with additional FY2010 cost information. These savings are summarized in Table 11 below.

Table 11: Summary of Cost Savings Provided in this Testimony
(in terms of FY2010 Costs) in millions

Mail Processing Equipment		
Maintenance Labor	$	372.7
Parts and Supplies (including BDS cartridges)	$	81.9
Depreciation of Equipment		
Subtotal	$	454.7
Facility Related Savings		
Building Maintenance and Custodial Labor	$	229.7
Utilities and Heating Fuel	$	74.4
Supplies and Contractor Costs	$	19.4
Rents and Earnings on Sales Proceeds	$	49.5
Subtotal	$	373.0
Workload Reduction Savings		
Reduction in Outgoing Secondary Sorting	$	22.8
Replacement of CSBCS and UFSM 1000 Sortation	$	15.4
Additional Letter Automated Sorting (e.g. DPS)	$	36.0
Subtotal	$	74.2
Total for Testimony	$	901.9

An additional observation can be made. Future years will have higher hourly labor costs and input unit costs, and most likely lower mail volumes. Actual savings obtainable in the coming years will be affected somewhat by these offsetting factors.

Appendix A

DESCRIPTION OF SERVICE-WIDE BENEFITS

Service-wide personnel benefits costs are not reported by employee category and therefore are not included in Cost Segments 1-13, 16, 18.1 and 19. Instead, these costs are included in cost segment 18.3. This Appendix contains a description of those service-wide benefits from cost segment 18.3 which are pertinent to labor savings identified in this docket, including an explanation of how they are pertinent. A complete description of service-wide benefits and their treatment in developing attributable costs by class is contained in "Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2010," filed with the Postal Regulatory Commission in July 2011, in connection with the Commission's rules pertaining to periodic reports, 39 C.F.R. § 3050 (2009).

Repriced Annual Leave and Holiday Leave Adjustment - Repricing of annual leave represents the increased liability associated with the difference between the value of annual leave when it is earned and when it is taken. Postal employees earn a specific number of annual leave hours per pay period. Pay increases that occur after leave is earned but before it is used result in an increase in the liability and cost.

The cost of repriced annual leave is determined by relating the number of unused leave hours for each employee at year end to the current wage rates,

summing for all employees, and then comparing this figure with the recorded liability for annual leave. The difference yields the cost of repricing annual leave.

Holiday Leave Adjustment is holiday leave variance and holiday leave on terminal leave. Like repriced annual leave, holiday leave adjustment costs are driven by wage increases and the actual cost of holiday leave versus the amount accrued. These costs relate to the services of current employees. Holiday leave variance represents the difference between actual year-end holiday leave costs and the amount of holiday leave costs estimated at the start of the fiscal year. At the beginning of the fiscal year, the amount for holiday leave is estimated in order to expense a uniform amount chargeable to each accounting period. At year-end, the actual holiday leave amount is compared with the estimated amount, the difference being the cost of holiday leave variance. Holiday leave on terminal leave represents the cost of holiday leave that is earned for the period represented by annual leave paid out as terminal leave.

Repriced annual leave and holiday leave adjustment costs could be identified by craft or function and reflected with the personnel costs of this and other segments. These costs are part of salaries and benefits and would be saved due to staffing and workhour reductions under operations or the network given the proposed service standard changes in the same manner as all other personnel-related costs.

Workers' Compensation - Workers' compensation costs are considered in terms of current-year costs, prior-year costs and health benefit payments for current or former Postal Service employees who are on Office of Workers' Compensation Programs (OWCP) rolls full-time.

Current-year workers' compensation costs represent the discounted present value of current and projected payments for employee claims against the Postal Service arising out of current-year workplace injuries. The number of employees directly influences changes in the amount of current-year workers' compensation expense for which the Postal Service is liable. If the number of workers' compensation claims were held constant per 1,000 employees, then any change in the total Postal Service labor force would cause a proportionate change in the number of claims. Current-year workers' compensation costs would be saved due to staffing and workhour reductions given the operations changes under the proposed service standards in the same manner as all other personnel-related costs.

Prior-year workers' compensation costs, Post Office Department workers' compensation costs and OWCP health benefits relate to worker compensation expenses of prior years and are not affected by current year staffing or work hours, so could not be saved in relation to the operational changes due to proposed service standards. It is for this reason that these prior-year workers' compensation costs are not included in attributable costs, but instead are classified as institutional.

Unemployment Compensation - Unemployment compensation costs reflect payments by the Postal Service to the Department of Labor to reimburse states for payments to unemployed former Postal Service employees. Holding labor force attrition and postal hiring and termination practices constant, the number of potentially unemployed postal workers is a function of total postal employment. Thus Unemployment Compensation would be saved through staffing and workhour reductions given the operations changes under the proposed service standards in the same manner as all other personnel-related costs.

Annuitant Health Benefits & Earned CSRS Pensions - The benefits earned during FY 2010 by current employees—benefits not contained in the labor Cost Segments of 1-13, 16, 18.1, and 19--nor in any of the FY 2010 expenses of the Postal Service —include both the retiree health benefits of $3.1 billion and Civil Service Retirement System (CSRS) pension benefits of $1.040 billion. These benefits, to be paid to current employees during their retirement years, are part of FY 2010 “pay” or salary and benefits for the postal employees receiving these benefits. The future payment of these benefits represents an obligation for the Postal Service, which will ultimately have to be paid by the Postal Service. As will be explained further below, the amount of this obligation depends on the number of employees and/or the earnings of the employees receiving these benefits. Thus, costs for retiree health benefits and CSRS pension would be saved through staffing and workhour reductions given the operations changes

under the proposed service standards in the same manner as all other personnel-related costs.

Under the Postal Accountability and Enhancement Act (PAEA), OPM determines the amount of the new obligations incurred each year pertaining to retiree health benefits (39 U.S.C. § 8908a[d][1]). The yearly increase in obligations is the change in the net present value of the future retiree health benefits payments during the year. It is the value of the retiree health benefits earned by current employees during the year. While it will not be paid to current employees until they retire, it is part of the compensation to employees, just like salaries and currently paid benefits. OPM's estimate of the present value of the additional obligation taken on during FY 2010 for future payment of retiree health benefit is $3.1 billion, reported in the Postal Service FY 2010 10-K Annual Report, page 22, shown as Normal Cost. In addition, OPM will tally these obligations each year and it will determine if additional payments after 2016 are needed to fully fund past obligations on retiree health benefits.[19] The larger the obligations taken on by the Postal Service in any year, the larger the amounts of additional funding will be required. The calculation of the Normal Cost is based on the number of employees potentially able to receive such benefits.

[19] The PAEA stipulated that a $5.4 billion payment for Postal Retirees Health Benefit Fund (PRHBF) should be made in FY 2007, with additional payments specified for each year up until 2016, with a 10 year total of payments of $51.8 billion, as per the 2010 Continuing Appropriations Resolution, Legislative Branch Appropriations Act, 2010, Public Law 111-068. These payments were to make up for past under funding of these retiree benefits and will be used in the payment of retiree health benefits starting in 2017.

Retirement pension benefits earned by CSRS employees in FY 2010 equaled $1.040 billion.[20] Under PAEA, the Postal Service no longer has to make contributions to CSRS, despite the continued employment of CSRS covered employees, because its past contributions to CSRS had overfunded this obligation. Again, as with the PRHBF, CSRS obligations taken on in FY 2010 and future years will affect how much the Postal Service ultimately pays to CSRS (either due to additional payments or monies returned to the Postal Service).[21] The CSRS fiscal year cost, previously called "employer contribution," is based on the fiscal year earnings of CSRS employees.[22]

For the above reasons, these benefits earned during the fiscal year by current employees, retiree health benefits of $3.1 billion and CSRS pensions of $1.040 billion are treated the same as salaries and benefits costs in Cost Segments 1-13, 16, 18, and 19 for the determination of attributable costs in the CRA.[23]

Annuitant Life Insurance and Annuity Protection Program - Annuitant life insurance costs represent the employer's share of the Federal Employee Group Life Insurance (FEGLI) for Postal Service annuitants. The OBRA of 1990

[20] See Summary Description of USPS Development of Costs by Segments and Components, FY 2010, page 18-7, (filed on July 1, 2011).
[21] 39 U.S.C. § 8348.
[22] PL 108-18 provided, starting in March, 2003, that the Postal Service "employer" contribution be 17.4 percent of CSRS employee salaries and that, together with the employee contribution of 7 percent, provides 24.4 percent of total salary per year toward retirement. This was designed to be the appropriate and actuarially sound annual contribution for CSRS retirement. It is the "current" year cost for CSRS pensions. Also see Docket No. ACR2007, Postal Service Response to Question 11 of CIR No. 1 (February 11, 2008).
[23] See Summary Description of USPS Development of Costs by Segments and Components, FY 2010, page 18-7, (filed on July 1, 2011). . For a more detailed discussion of this topic, see the FY 2007 ACR, USPS-FY07-2, Supplement.

required the Postal Service to pay the employer's share of FEGLI premiums for all employees retiring on or after July 1, 1971, and their survivors, with the exclusion of Federal civilian service prior to that date. The annuitant life insurance costs are part of the benefits earned by the covered employees. Such costs would be saved through staffing and workhour reductions given the operations changes under the proposed service standards in the same manner as all other personnel-related costs.

Annuity protection program costs are for benefits paid to specific disability and discontinued service annuitants and their beneficiaries under the Annuity Protection Supplemental Retirement Plan. Because these costs are unrelated to to current employees, they are not affected by current year staffing or work hours, so they could not be saved in relation to operational changes associated with service standard changes. It is for this reason that these costs are not included in attributable costs, but instead are classified as institutional.

LIST OF ATTACHMENTS

1. Productive Hourly Rates for FY 2010 by Cost Segment
2. Productive Hourly Rates for FY 2010 for Maintenance and Custodial
3. FY2010 Labor and Non-Personnel Costs for Processing Facilities

Productive Hourly Rates for FY 2010 by Cost Segment

FY 2010

SEGMENT/SUBSEGMENT	COMP.	TOTAL PERS. EXP. ($ 000)	WORK YEARS	AVERAGE ANN. RATE	CONVERSION FACTOR	PROD. HRLY. RATE
SUPERVISORS & TECHNICIANS*	284	3,652,436	41,552	$ 87,901.17	1,813	$ 48.4838
CLERKS A-J	478	11,765,543	164,956	$ 71,325.33	1,738	$ 41.0387
MAIL HANDLERS	478	3,645,179	51,521	$ 70,751.69	1,746	$ 40.5222
CLERKS & MAIL HAND. A-J	478	15,410,722	216,477	$ 71,188.80	1,740	$ 40.9131
CITY DEL. CARR'S.	256 & 257	15,640,234	216,418	$ 72,268.53	1,755	$ 41.1786
VEHICLE DRIVERS	258	615,140	8,133	$ 75,636.63	1,756	$ 43.0733
RURAL CARRIERS	72	5,964,202	96,496	$ 61,807.61	1,836	$ 33.6643
BLDG. SERVICES	74	1,141,502	16,419	$ 69,522.45	1,729	$ 40.2096
OPERATING EQUIPMENT	75	1,541,042	18,621	$ 82,759.06	1,742	$ 47.5081
BLDG EQUIPMENT	79	510,589	6,671	$ 76,539.96	1,724	$ 44.3967
MOTOR VEH. SVC.	90	431,482	5,650	$ 76,373.51	1,736	$ 43.9940
CITY & RURAL CARRIERS		21,604,436	312,915	$ 69,042.61	1,780	$ 38.7880
HEADQUARTERS	191	781,507	7,203	$ 108,502.83	1,746	$ 62.1437

Source:

Total Personnel Expense - RealTB10
Workyears - Wkyrcalc-10
Conversion Factor - FFM

Source: Docket No. ACR2010, USPS-FY10-7, part8.xls.

*Supervisors and Techicians includes Plant Managers, as well as LDCs 2-9 (Quality Improvement, Industrial Engineer, Address Information Systems Tech., Environmental Management, Admin and Cler Oper Suppt, Travel- ops sup, delivery and retail analysts.

Productive Hourly Rates for FY2010 for Maintenance and Custodial

Segment/Subsegment	Comp.	Total Personnel Expense ($000)	Workyears	Average Annual Rate	Conversion Factor	Productive Hourly Rate
Equipment Maintenance /1	75	$ 1,304,476	15,925	$ 81,914	1,739	$ 47.1042
Building Maintenance /1	79	$ 381,761	5,024	$ 75,980	1,719	$ 44.2003
Custodians /1	74	$ 1,044,559	15,459	$ 67,570	1,729	$ 39.0801
Administration /1	74-79	$ 160,417	2,200	$ 72,933	1,747	$ 41.7476
Supervisors /2		$ 301,920	3,103	$ 97,300	1,773	$ 54.8787
		$ 3,193,134	41,711			

Notes:

/1 Includes Career and Casual employees.
/2 Includes all Supervisors.

Source: Same as for Attachment 1, and additional detail from the National Consolidated Trial Balance and the National Payroll Hours Summary Report.

Ratio of Supervision to Staff Work Years in Maintenance and Custodial

	Workyears
Supervision	3,103
Maintenance and Custodial Staff	38,608
Ratio	0.080371592

Attachment 3

FY2010
LABOR AND NON-PERSONNEL COSTS FOR PROCESSING FACILITIES*

		Total
C/S 1 - POSTMASTERS		7,828,302
C/S 2 - SUPERVISORS		875,933,386
C/S 3 - CLERKS & MAILHANDLERS		7,788,306,393
C/S 4 - CLERKS CAG K OFFICES		160
C/S S 6 & 7 - CITY DELIVERY CARRIERS		156,971,212
C/S 8 - VEHICLE SERVICE DRIVERS		559,083,602
C/S 10 - RURAL CARRIERS		
72	Subtotal Rural Carrier Personnel Costs	39,152,458
73	Subtotal Equipment Maintenance Allowance	2,911,232
TOTAL		42,063,690
C/S 11 - CUSTODIAL & MAINTENANCE SERVICES		
74	Subtotal Building Service Maintenance Personnel Costs	536,103,912
75	Subtotal Operating Equipment Maintenance Personnel Costs	1,216,162,580
79	Subtotal Building & Plant Equipment Maintenance Personnel Costs	350,832,546
81	CONTRACT JOB CLEANERS-BUILDING SERVICES	765,090
74-79	Subtotal Maintenance Administrative Support Personnel Costs	216,586,522
TOTAL		2,320,450,651
C/S 12 - MOTOR VEHICLE SERVICE		
90	Subtotal Motor Vehicle Service Personnel Costs	17,427,710
99	Subtotal Motor Vehicle Supplies & Materials	100,959,671
108	VEHICLE HIRE	2,441,760
TOTAL		120,829,142
C/S 13 - MISCELLANEOUS LOCAL OPERATIONS		
111	Subtotal Contract Station Service	2,020,999
113	Subtotal Tolls & Ferriage - Local Transportation	319,922
114	Subtotal Facilities & Purchasing Field Service Unit Personnel Costs	198
115	Subtotal Individual Awards	25,266,286
117	Subtotal Mail Equipment Shop Issue and Freight	2,567,049
125	Federal Reserve and Commercial Bank Services	14
135	Subtotal - Carfare - Other than Carrier Owned	3,452,499
141	Subtotal City Carrier Drive Out Costs	13
TOTAL		33,626,980
C/S 15 - BUILDING OCCUPANCY		
165	Subtotal Net Cost of Rent	89,287,038
166	Subtotal - Building Heating Fuels	17,652,114
167	Subtotal Utilities	203,139,886
168	Subtotal - Communications	143,516
169	Subtotal Building Repair & Alteration Projects	73,079
170	Subtotal Moving Expenses	9,435
TOTAL		310,305,066
C/S 16 - SUPPLIES & SERVICES		
173	Subtotal Materiel Distribution Centers & Label Printing Center Personnel Cost	1,361
174	Subtotal ADP supplies & services	1,387,669
175	Subtotal repair & maint. of equipment excluding ADP & vehicles	1,566,833
176	Subtotal custodial supplies & services	60,231,054
177	Total postal supplies & services	91,923,418
179	Subtotal printing and reproduction	837,787
180	Subtotal stamps and accountable paper	30,019
182	Total inventory adjustments	(43,677)
184	Subtotal operating equipment, supplies & services	148,404,339
187	Subtotal - Expedited Mail Supplies	75
189	Total reimbursements (Reimbursements)	(404,101)
246	Subtotal - Advertising and Sales Promotions	119,850
1426	Subtotal - Non-Mail Related Products	102
TOTAL		304,054,727

Attachment 3

C/S 18 - HQ&AREA ADMIN&CORPORATEWIDE PERSONNEL COSTS		
191	Total Headquarters & Field Service Unit Personnel Costs	48,236
193	Subtotal Area Administration Personnel Costs	158,543
206	Subtotal Workers' Compensation expense	302,121,639
210	Subtotal Supplies & Services	967,407
211	Subtotal miscellaneous expenses	1,991,693
212	Subtotal investigative costs & employee losses	33,554
213	Subtotal reimbursements	(70)
895	H.B.PREMIUMS-WORKERS COMP CLAIMANTS	456,872
1429	Total Individual Awards	65,013
1430	Miscellaneous Personnel Compensation	237,805
TOTAL		306,080,692
C/S 19 - EQUIPMENT MAINT & MGMT TRAINING SUPPORT		
219	Subtotal Maintenance Technical Support Center Personnel Costs	1,548
220	Subtotal - Training - Contract Support	25,791,429
TOTAL		25,792,977
C/S 20 - DEPRECIATION, WRITE OFFS, LOSSES & INTEREST		
231	Subtotal Depreciation - Motor Vehicles	38,482,653
232	Subtotal Depreciation - Equipment	664,515,704
236	Subtotal Depreciation - Leases and Buildings	282,018,106
237	Subtotal Amortization - Leasehold Improvements	29,112,002
242	Subtotal Claims & Losses	3,932,044
245	Subtotal Disposition of Property	54,364
1437	Subtotal - Other Interest	222,157
TOTAL		1,018,337,029
TOTAL EXPENSES		13,869,664,008